DOCUMENT RESUME

ED 299 209 SO 019 358

TITLE Life Insurance Basics: A Self-Help Workbook for Consumers.
INSTITUTION Saskatchewan Consumer and Commercial Affairs, Regina.
PUB DATE 88
NOTE 49p.; Contains boxed sections in color.
PUB TYPE Guides - Non-Classroom Use (055)

EDRS PRICE MF01/PC02 Plus Postage.
DESCRIPTORS *Consumer Education; Consumer Protection; Foreign Countries; *Programed Instruction; Programed Instructional Materials; Purchasing; Study Guides
IDENTIFIERS *Canada; *Life Insurance

ABSTRACT

This booklet provides consumers with an overview of information about life insurance. Chapter 1, "Why Life Insurance?" outlines the primary purposes of life insurance coverage and presents basic facts about the Canadian life insurance industry. Chapter 2, "Do I Need Life Insurance?" discusses life insurance coverage at specific age levels and provides worksheets for help in assessing life insurance needs. Chapter 3, "Understanding Life Insurance," outlines information about basic principles and types of policies and describes how to read a policy, choose a beneficiary, and change policies, while chapter 4, "Shopping for Life Insurance," considers choosing an agent and a life insurance company and provides methods to use when comparing costs. Chapter 5, "Where To Take a Life Insurance Complaint," offers specific complaint procedure information, and chapter 6, "Understanding the Language of Life Insurance," provides a glossary of terminology. Drawings and charts are included. (JHP)

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Saskatchewan
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Life Insurance Basics:

A Self-Help Workbook for Consumers

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Acknowledgements

The life insurance industry in Canada has been working for many years to establish and maintain a high standard of professional competence. Through training and education and adherence to a comprehensive code of ethics, life insurance professionals strive to offer their clients the best possible advice and place clients' interests above their own.

In keeping with this focus, representatives from the industry co-operated with Saskatchewan Consumer and Commercial Affairs to plan and develop the **Life Insurance Basics** education material. The Department wishes to thank those who gave freely of their time and effort to provide support and technical advice:

- Institute of Chartered Life Underwriters of Canada.
- Canadian Life and Health Insurance Association.
- Life Underwriters Association of Canada.

Dear Consumer:

For many people, life insurance can be a difficult topic. The variety of policies available, the different companies and the range of prices, not to mention the seemingly endless selection of options, can be "mind boggling."

If life insurance is a subject that confuses you, you're not alone. In fact, a 1981 Canadian study* found that among 25 commonly purchased goods and services, consumers ranked life insurance as the third most difficult purchase!

Life Insurance Basics: A Self-Help Workbook for Consumers has been developed to simplify and demystify life insurance by answering your questions:

- Do I need life insurance?
- If so, how much?
- What is the best type for me?
- How can I purchase the coverage I need at the lowest cost?
- What do I look for in a company and agent?
- If I already have a policy, is it providing for my needs? And if not, what can I do about it?

In developing this booklet, we have endeavored to provide a comprehensive and unbiased overview of the subject drawing from a broad range of sources. It is intended as an introduction to provide consumers with the necessary background and understanding to make an informed decision. In-depth questions or concerns should be directed to a life insurance agent who has been trained to deal with the intricacies of this important area.

Finally, the language of life insurance may require some translation. To assist you as you work through this booklet, there is a section on page 41 entitled "Understanding the Language of Life Insurance". Please refer to it as needed.

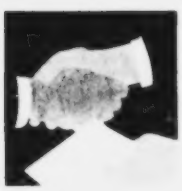
* "Consumer Perceptions of Prepurchase Shopping Problems and Solutions"

Contents

I. Why Life Insurance? 1
Purposes 2
Some Facts About the Life Insurance Industry 2

II. Do I Need Life Insurance? 3
Insurance Life Cycle 4
Assessing Your Life Insurance Needs 6

III. Understanding Life Insurance 13
Some Basic Principles 14
Types of Policies 15
Term Insurance 15
Permanent Insurance 16
Endowment Insurance 21
Universal Life Insurance 21
Reading A Policy 24
Choosing A Beneficiary 26
Switching Policies 28



IV. Shopping for Life Insurance 31
Choosing An Agent 32
Choosing A Company 34
Comparing Costs 35
Before You Buy Final Checklist 38

V. Where To Take A Life Insurance Complaint 39

VI. Understanding The Language of Life Insurance 41

I. Why Life Insurance?

"Family financial protection . . . is what leads the overwhelming majority of people to buy life insurance."

From: **The Basics of Life Insurance: A Reference for Secondary School Teachers**

Purposes

The primary purpose of life insurance is to protect your dependents financially in the event of your premature death. It permits your survivors to:

- shoulder the immediate expenses associated with a death (funeral costs, medical and other outstanding bills, legal/probate fees, etc.);
- cover the long-term expenses associated with raising a family; and,
- maintain a comfortable standard of living.

Life insurance is also sold for other purposes:

- to guarantee insurability in case you as a policyholder might later have a change in health;
- to provide a forced savings plan;
- to act as a tax shelter;
- to clear the mortgage on your home;
- to guarantee funds for your children's university or other advanced education;
- to provide a backup device to ensure payment of debts;
- to benefit your favorite charity or other causes when you die;
- to provide additional income during retirement when protection is no longer required;
- to create an estate for your beneficiaries; and,
- to buy out heirs of your business partner.

Whether or not **there are better vehicles than life insurance** for accomplishing these additional purposes is debatable. The pros and cons of using life insurance for purposes other than family protection are discussed later.

Some Facts About The Life Insurance Industry

In Saskatchewan

- In 1986-87, there were 1,308 licensed life insurance agents.
- In 1986-87, there were 122 licensed life insurance agencies.
- In 1985, the total amount of premiums sold (for all plans excluding fraternals) was $332,391,000.

In Canada

- In 1985, the total assets of life insurance companies was $75,914,000,000.
- In 1985, the earning rate by Canadian life companies on global investments was 11.73%.
- At the end of 1985, Canadians owned $740 billion of life insurance. Of those insured, the average amount per individual was about $51,500. The average amount owned per resident in the prairie provinces was $29,013.
- 99% of applications for individual life insurance policies are accepted. Of the 1% declined in 1985:
  - 25% were rejected for heart disorders
  - 54% were rejected for other serious health problems
  - .5% were rejected because of dangerous occupations

II. Do I Need Life Insurance?

"Ask yourself this question: If I died today, would my death create financial hardship for anyone? If your answer is yes, then you need life insurance. If your answer is no, then you don't need it – at least not at this particular time in your life."

From: **The Basics of Life Insurance: A Reference for Secondary School Teachers**

Insurance Life Cycle

As you progress through life, your income, expenses, family responsibilities, goals and dreams change. As a result, your need for life insurance will also change.

1. **Child**	Children do not need insurance, generally speaking. However, some parents purchase a policy to guarantee future insurability. In other words, if a child should happen to develop a serious illness later in life, coverage that would otherwise be denied, could be continued. Unless your family medical history points to this possibility, a policy on a child need not be a priority.
2. **Single Person**	A single person without dependents does not have a pressing need for life insurance. A single person may decide to carry a small policy to cover final expenses and any outstanding debts, at least until savings are accumulated.
3. **Beginning Family**	Childless couples who are often settling into a home, lifestyle and career and enjoying the benefits of dual income may or may not need life insurance. If both spouses are employed and self-supporting, a life insurance policy to cover final expenses and outstanding debts could be purchased. However, when one spouse is dependent on the income of the other, the breadwinner should arrange enough protection to provide an income for the surviving spouse.

4. **Expanding Family**	Beginning with the birth of the first child and following through the childhood years, the expenses of raising a family and paying off a mortage will be heavy. Families in this stage almost always need a lot of life insurance. In theory, a couple's life insurance needs peak on the very day that their last child is born. On that day, the family income must support the maximum number of dependents for the longest period of time. The loss of earnings in this stage poses a strong threat to the family's financial security as the costs of raising one child to adulthood today in Canada are estimated at more than $200,000. If both spouses contribute to the family income, then both should be insured. In a one-income family, the breadwinner should carry adequate protection. If the death of the homemaker would create a need for child care and housekeeping services that the breadwinner's income may not be able to cover, then an additional policy should be considered.
5. **Contracting Family**	When the children are grown and start to leave the nest, careers have advanced and income has usually peaked, couples will likely require a smaller amount of life insurance, if any at all.
6. **Retired Family**	When the children leave home and the couple is on their own again, expenses usually shift downward and the need for life insurance is basically non-existent. However, if there is a sufficient amount of life insurance maintained in force after retirement to provide an income for the surviving spouse, then it will be possible to maximize pension, annuity or other retirement income.

Assessing Your Life Insurance Needs

No two families are alike. Each has its own specific needs, wants, interests, values and goals. Combine all these factors and you get a "lifestyle" that is unique. Life insurance can preserve and protect this lifestyle.

Since you have the best knowledge of your financial situation and future plans, it is a wise idea to set aside some time with your family and assess your life insurance needs **before meeting with an agent.** That way you'll feel free to engage in discussion and be in a better position to make a good decision.

Following is a step-by-step worksheet that will help you to determine your life insurance needs. You may wish to complete it in pencil so that changes can be easily made if necessary. A summary worksheet is available on page 11 so that you can transfer your final calculations for handy reference when you meet with your agent.

To begin assessing your life insurance requirements, first assume that you died yesterday. This may not be a pleasant thought, but it will help you to focus on a plan of action. Arm yourself with your financial records and, if possible, a calculator when you settle down to this task.

Needs

Death creates two types of expenses for the family:

- immediate expenses
- future expenses

A. Immediate Expenses

These one-time expenses are associated directly with your death.

Probate Costs

Investigate the legal procedure of having the court validate the will of the deceased and confirm the appointment of the Executor/Executrix. Not all wills require probate. If the majority of your assets are jointly held and are to be transferred to your spouse, chances are that probate won't be necessary. However, probate is necessary if you have real estate in your name, make large bequests or set up a trust fund. The lawyer responsible for drawing up your will should be able to advise you.

$ _____

Death Taxes
Where applicable, this includes capital gains tax, outstanding back taxes, property taxes, etc.

$ _____

Funeral Costs
These can vary widely depending on the professional services and options you select. Without including the cost of the burial plot, gravedigging and tombstone, the average funeral in 1986 cost from $1400 to $1600. If you include a private plot and tombstone, the price is likely to be between $2,000 and $3,000.*

$ _____

Uninsured Medical Costs
Most medical bills are absorbed by our provincial hospitalization plan and/or group health insurance plans. Allot some funds to cover any uninsured medical costs.

$ _____

Repayment of Debts
Enter the balance currently owing on credit cards, car loans, etc. Next, consider your mortgage. If your mortgage is insured, any outstanding balance will be paid automatically in the event of death. If your mortgage is not insured, allow enough money to pay off the balance in full.

Charge Accounts $ _____
Loans $ _____
Mortgage $ _____

$ _____

Total Immediate Expenses

$ _____

*__Protect Yourself__, October, 1986

12

B. Future Expenses

The on-going expenses in this category will create the bulk of your life insurance needs.

Family Expense Fund
This represents basic living expenses for your family such as food, clothing, rent, utility bills, childcare expenses and property and income taxes if applicable. (Mortgages and loans are not included in this calculation).

Determine how much of your income goes toward basic living expenses each month. If you use a budget to track and control expenses, use the actual figure. If you don't have a budget, take 75-80% of your monthly take home pay as a rough estimate. If your spouse is not self-supporting, provide a readjustment income to allow your spouse time to find suitable income or complete training – or you may need to provide a life-long income.

Now multiply by 12 the amount of monthly income that you want your family to have. For example, if that amount were to be $1,000, the yearly total would be $12,000.

Next, estimate a rate of interest that your spouse could earn on a long-term, guaranteed basis after taxes (should be conservatively about 7-8%).

Then divide the yearly amount by that rate of interest and this will give you the amount needed for family expenses.
In our example, $12,000 ÷ .08 = $150,000.

$ _____

Emergency Fund
The sudden need for home or car repairs, replacement of a major appliance or unexpected medical bills should be considered. While the optional amount allotted is up to you, several sources recommend $10,000 or the equivalent of six month's wages.

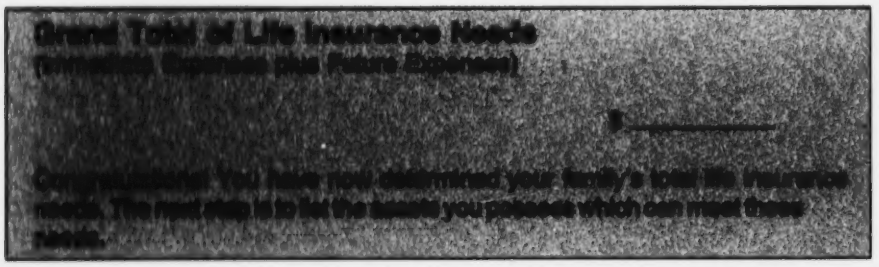
$ _____

Education Fund
You may wish to include an amount of money to pay for your children's education if you haven't already made provision. A term policy on **your** life specifically for this purpose may be a good idea.

$ _____

Total Future Expenses

$ _____



Assets

A quick inventory of your current income-producing assets is all that is required. List those assets that are either making money for you or you will sell to create an income for your survivors.

Cash

Enter current balances:

Cash on Hand	$ _____
Chequing Account	$ _____
Savings Account	$ _____

Investments

List the total current value of any stocks, bonds, GIC's, mutual funds, etc., only if you will use them as income.

$ _____

Home

Your family will have to live somewhere. Count your home as an asset only if it will be sold.

$ _____

Other Real Estate

If you own other real estate that would be sold, list it here.

$ _____

Automobile(s)

List the current market value (refer to used car price guides) of each vehicle that would be sold.

$ _____

Canada Pension Plan

If you have contributed to the CPP for at least 3 years, a lump sum death benefit will be payable to your estate. Your spouse and children may also be eligible for a monthly survivors' pension. The size of the surviving spouse's pension varies in accordance with the amount contributed to the plan and your spouse's age. Surviving children are eligible for a flat rate orphan's pension until age 18, or up to age 25 if attending school or university full time.

The maximum benefits currently available (1988) are:

Lump sum death benefit:	$2,650.
Orphan's pension (flat rate):	$ 98.96/month
Surviving spouse's pension:	
Under age 65	$302.61/month
Over age 65	$325.84/month

To estimate the monthly benefits your family could expect, use either the maximum benefits or downgrade them slightly. An example of a calculation for benefits payable to a wife age 40 and 2 children ages 6 and 10 is provided:

Spouse's pension is $302.61 × 12 months
= $3,631.32/yr. payable for life

Now multiply this yearly income by the expected life span (In Saskatchewan, 72.4 years for males and 79.61 years for females).
$3,631.32 × 39.61 = $143,836.58 total benefits

Orphans' pensions
for child age 10:
($98.96 × 12 months) × (18 − 10) = $9,500.16
for child age 6:
($98.96 × 12 months) × (18 − 6) = $14,250.24

Lump Sum Death Benefit $ _____

Projected Monthly Benefits $ _____

Other Pension Plans
If you contribute to an additional plan at work, check into that benefit schedule as well.

$ _____

RRSP
List the current total value of all Registered Retirement Savings Plans you are planning to cash in less the amount of income tax you would have to pay once they are cashed in. (Part of this will be withheld at source.)

$ _____

Current Life Insurance

Individual $ _____

Group $ _____

Record the face value of existing policies.

Other Assets
List any jewellery, art, tools of the trade or personal effects you would like your survivor to consider as assets only if they will be sold.

$ _____

Grand Total of Assets

$ _____

Final Accounting

Balance your assets against your needs by simply subtracting your total assets from your total needs.

Total Needs $ _____

− Total Assets $ _____

Life Insurance Needs = $ _____

If your assets equal or exceed needs, no insurance is required. If there is a gap, however, your challenge is to find a policy that best meets your protection needs in an economical way.

Assessing Your Life Insurance Needs – Summary Worksheet

(Transfer your final calculations to this sheet for handy reference when you meet with your agent)

Needs	First Assessment	Future* Assessment	Future* Assessment
Immediate Expenses:			
Probate Costs	$ _____	$ _____	$ _____
Death Taxes	$ _____	$ _____	$ _____
Funeral Costs	$ _____	$ _____	$ _____
Uninsured Medical Costs	$ _____	$ _____	$ _____
Repayment of Debts			
for: Charge Accounts	$ _____	$ _____	$ _____
Loans	$ _____	$ _____	$ _____
Mortgage	$ _____	$ _____	$ _____
Future Expenses:			
Family Expense Fund	$ _____	$ _____	$ _____
Emergency Fund	$ _____	$ _____	$ _____
Education Fund	$ _____	$ _____	$ _____
Total Needs	$ _____	$ _____	$ _____
Assets			
Cash:			
Cash on Hand	$ _____	$ _____	$ _____
Chequing Account	$ _____	$ _____	$ _____
Savings Account	$ _____	$ _____	$ _____
Investments	$ _____	$ _____	$ _____
Home	$ _____	$ _____	$ _____
Other Real Estate	$ _____	$ _____	$ _____
Automobile(s)	$ _____	$ _____	$ _____
Canada Pension Plan:			
Lump Sum Death Benefit	$ _____	$ _____	$ _____
Projected Monthly Benefits	$ _____	$ _____	$ _____
Other Pension Plans	$ _____	$ _____	$ _____
RRSP	$ _____	$ _____	$ _____
Current Life Insurance:			
Individual	$ _____	$ _____	$ _____
Group	$ _____	$ _____	$ _____
Other Assets	$ _____	$ _____	$ _____
Total Assets	$ _____	$ _____	$ _____
Final Accounting			
Life insurance needs = Total Needs – Total Assets	$ _____	$ _____	$ _____

* Your insurance needs will change over time and should be reassessed at least every five years or more frequently depending on policy type and family circumstances.

Assessing Your Life Insurance Needs – Summary Worksheet

(Transfer your final calculations to this sheet for handy reference when you meet with your agent)

Needs	Future* Assessment	Future* Assessment	Future* Assessment
Immediate Expenses:			
Probate Costs	$ _____	$ _____	$ _____
Death Taxes	$ _____	$ _____	$ _____
Funeral Costs	$ _____	$ _____	$ _____
Uninsured Medical Costs	$ _____	$ _____	$ _____
Repayment of Debts			
for: Charge Accounts	$ _____	$ _____	$ _____
Loans	$ _____	$ _____	$ _____
Mortgage	$ _____	$ _____	$ _____
Future Expenses:			
Family Expense Fund	$ _____	$ _____	$ _____
Emergency Fund	$ _____	$ _____	$ _____
Education Fund	$ _____	$ _____	$ _____
Total Needs	$ _____	$ _____	$ _____
Assets			
Cash:			
Cash on Hand	$ _____	$ _____	$ _____
Chequing Account	$ _____	$ _____	$ _____
Savings Account	$ _____	$ _____	$ _____
Investments	$ _____	$ _____	$ _____
Home	$ _____	$ _____	$ _____
Other Real Estate	$ _____	$ _____	$ _____
Automobile(s)	$ _____	$ _____	$ _____
Canada Pension Plan:			
Lump Sum Death Benefit	$ _____	$ _____	$ _____
Projected Monthly Benefits	$ _____	$ _____	$ _____
Other Pension Plans	$ _____	$ _____	$ _____
RRSP	$ _____	$ _____	$ _____
Current Life Insurance:			
Individual	$ _____	$ _____	$ _____
Group	$ _____	$ _____	$ _____
Other Assets	$ _____	$ _____	$ _____
Total Assets	$ _____	$ _____	$ _____
Final Accounting			
Life insurance needs = Total Needs – Total Assets	$ _____	$ _____	$ _____

* Your insurance needs will change over time and should be reassessed at least every five years or more frequently depending on policy type and family circumstances.

III. Understanding Life Insurance

"There are starter homes and there are mansions. There are Ladas and there are Rolls-Royces. It's the same with life insurance."

From **The Basics of Life Insurance: A Reference for Secondary School Teachers**

Some Basic Principles

Before we begin looking at the various types of life insurance policies available, following is an outline of some basic principles about how life insurance works:

1. **Pooled Risk**
   Many people contribute small amounts of **premium** (insurance payment) in order to pay large sums to the few who experience loss in a given year. Life insurance companies only charge enough premium to cover the costs.

2. **Pure Cost**
   The cost of life insurance is determined by 3 factors:
   - **Mortality**
     Based on statistics that are collected over many years, **actuaries** (life insurance experts) can very accurately determine how many people of a given age will die in one year **(mortality rate).** From these mortality tables, it is possible to arrive at the amount of premium that must be collected from each policyholder so that by the time the last one has died, all of the pool of money will have been paid out.
     The primary determinants of mortality are:
     - age
     - sex (women live longer than men on average)
     - state of health
     - occupation

     The higher the mortality risk, the higher the premium cost. In other words, you pay more for life insurance if you are older, a male, in poor or questionable health, and you are in a risky occupation.
   - **Expenses**
     As in any business, expenses occur for things such as administration, salaries, commissions, rent, telephones, printing, stationery, and so on. As a result, an amount for expenses is added to the premium.
   - **Interest**
     The life insurance company invests the pool of money collected from many policyholders to earn interest. This interest is used to subsidize the amount of premium required from each policyholder.

To sum up, the cost of a policy is as follows:

Mortality + Expenses − Interest = Cost of Insurance

19

Types of Policies

You have a wide **range of options** to choose from. A policy can be:

- **participating** (pays dividends)
- **non-participating** (pays no dividends)
- **variable** in its benefits (premiums and/or the death benefit will vary according to the life insurance company's earnings)
- **guaranteed** (all factors including premiums, death benefit and rate of return are at a fixed amount)

The **types of policies** available are:

- **individual** (one **policyholder** or owner of the policy)
- **joint** (two policyholders, e.g. husband/wife)
- **multi-life** (more than two policyholders)
- **group** (usually employment related)

Individual insurance policies may be:

- **term** (provides pure protection only for a specified period of time)
- **permanent** (combines insurance protection with long-term cash accumulation)

Term Insurance

What Is It?

Term is a simple and inexpensive form of life insurance in the short-term. You receive protection against your death for a specified **term** (time period). The term can be for as short a period as one year, or for a longer span of 15-20 years or to age 100, depending on your needs. At the end of the term, unless the policy can be renewed, coverage stops and **the policy has no cash value.** If you die within the term stated in the policy, the life insurance company pays the **face value** (amount of coverage) to your beneficiaries.

How Does It Work?

- During the term, the face value may remain the same or it may increase or decrease.
- Your annual premiums also usually remain constant during each policy term. If you renew your policy for an additional term, the premiums will go up since you are older.
- Term insurance usually **does not build cash values** since premiums are low in the early years and they bring in less money than other types of policies. Term policies are viewed simply as life insurance vehicles and not as investment or savings opportunities.
- Most term policies can be **converted** (changed or switched) to a cash value policy. Convertibility allows you to switch without proving medically, all over again, that you are insurable **(proof of insurability).**
  The writers of **Consumer Reports** recommend policies that are **convertible to at least age 60 while others recommend age 65.** Note that the longer the period that conversions are allowed, the higher the cost to the consumer. Should you choose this option, you will have the privilege of converting your term insurance up to age 60 or 65. However, the cost of converting to a new type of policy may be prohibitive at a later age.

- Most term policies are also **renewable**, enabling you to renew for another term without proof of insurability at an increased cost. **Consumer Reports** recommends policies that are **renewable to at least age 65 while others recommend age 75.**
- If you miss paying a premium, you have a 31-day period of grace in which to make payment. After that time, however, the policy **will no longer be in force** and you must apply for a reinstatement which may not be forthcoming if there has been a change in health for the worse.

Would You Benefit From Purchasing Term Insurance?

Check off the descriptions that apply to you.

☐ **I have a decreasing need for life insurance** (I have children growing up; my savings account is expanding and my mortgage is gradually being paid off).

☐ **I need insurance but I am on a limited budget** and would find payment of permanent policy premiums difficult.

☐ **I need insurance for a clearly measurable point in time** and the time needed is short (such as coverage while a bank loan is being paid off).

☐ **I have an unstable job** and so I may have difficulty maintaining the higher premiums of permanent policies.

Permanent Insurance

There are three categories of permanent insurance:

- **whole life**
- **endowment**
- **universal life**

1. **Whole Life Insurance** – Also called:
   - straight life
   - ordinary life
   - permanent life

What is it?
Whole life insurance combines pure insurance protection with savings. This type of policy is meant to provide coverage for you for your whole life – hence the name. It continues until the day you die or you give it up ("**surrender** it") in return for its cash value.

How Does It Work?

A whole life policy has three essential elements:

a. **Death Benefit** – the amount paid to your beneficiaries when you die.

b. **Premium** – the amount you pay each year to keep the policy in place. Whole life premiums start out high, roughly five to eight times the cost of term premiums. The following table explains:

Male, age 35, non-smoker

Age	Whole Life			10-year Renewable Term	
	Face Amount	Premium	Cash Surrender Value	Face Amount	Premium
35	$100,000	$ 1,389	$ 0	$100,000	$ 169
45	$100,000	$ 1,389	$ 14,600	$100,000	$ 359
55	$100,000	$ 1,389	$ 59,100	$100,000	$ 794
65	$100,000	$ 1,389	$171,600	$100,000	$ 1,803
Total Premiums Paid		$ 41,670			$31,250
Cash Surrender Value (amount received by you if you surrender the policy) at age 65:		$171,600			N/A*

* Note: While you have not accumulated any cash value in a term policy, you may accumulate a very substantial fund if you invest the difference between what you would pay for a whole life policy and a term policy.

Although term insurance premiums increase each year, they do not equal the cost of whole life premiums until many years later. You are, in effect, paying additional premium on a whole life policy in the early years so that you can underpay in the later years.

c. **Guaranteed Cash Value** – the amount which the life insurance company guarantees to pay you if you surrender your policy. The cash surrender values are shown, year by year, in a table contained in your policy.

It is important to note that if you purchase a whole life policy, you should be committed to it for the long-term. If you surrender your policy in the early years, your cash value will not equal the deposits you have made. After 10-12 years, your cash value should approximately equal the amount which you have paid and from then on, will exceed your deposits by an ever-widening margin. The following table explains:

$100,000 whole life policy issued to a male, age 35, non-smoker

Year	Premium	Accumulated Premiums	Cash Surrender Value (amount received by you if you surrender the policy)
1	$1,389	$ 1,389	$ 0
2	$1,389	$ 2,778	$ 0
3	$1,389	$ 4,167	$ 700
4	$1,389	$ 5,556	$ 2,200
5	$1,389	$ 6,945	$ 3,800
10	$1,389	$13,890	$14,600

Cash values are guaranteed to be paid out if you surrender the policy. If you should die while the policy is in effect, your beneficiaries will receive the death benefit plus accumulated dividends. They then may or may not also receive the cash value, depending on the structure of the policy.

Six ways you can use your cash value:

1. **Surrender your policy** and take the accumulated value in cash or else leave it with the company to accumulate interest for withdrawal at a later date.
   Considerations:
   - Your insurance coverage is terminated. If you ever need that coverage again, the premiums will be higher because you're older.
   - The lump sum is taxable.
2. **Borrow from the policy** any amount up to the total cash value.
   Considerations:
   - You may be able to borrow at a lower rate of interest than that charged by financial institutions. Check first, however.
   - Should you die while the loan is outstanding, your beneficiaries will receive the face amount of the policy less the amount of the outstanding loan.
   - If you cash in the policy before paying back the loan, you receive the cash value of the policy minus the loan amount and interest.
3. **Use the cash value as collateral for a loan**. To do this you transfer the right to your cash value to your creditors until the loan is repaid. If you default, your creditor can cash in your policy to regain the owed amount.
   Considerations:
   - If you default and your creditor cashes in your policy, you have lost the policy and its protection along with it.
4. **Use the cash value to pay the premiums.** If you choose this option, the face value of the policy is reduced accordingly. Note that this option operates automatically if you are unable to pay your premiums.
   Considerations:
   - This option is good only as long as some cash value remains. Once the cash value has been depleted, your policy will lapse unless you can locate other funds to pay your premiums.
5. **Use the cash value to purchase a "paid up" policy** of whole life or term insurance.
   Considerations:
   - If you choose whole life, the face value will be lower but protection will be for life.
   - If you choose term, the face value will be the same but protection will be for a limited period only.
6. **Use the cash value to purchase an annuity** at retirement age.

Dividends

Whole life policies that are participating pay dividends. The premiums for participating are usually higher (18 - 60% higher) than for non-participating policies. This is because actuaries set the premiums higher than necessary to cover the company's forecasted expenditures. If the company brings in more premiums than it needs, it then refunds part of the premiums to policyholders through dividends.

Facts About Dividends

a) Dividends are paid at the discretion of the company and are never guaranteed. However, most companies pay them in order to remain competitive. Furthermore, dividend payments may be higher than forecast.

b) Dividends are paid in differing amounts to policyholders depending on:
- the kind of policy
- length of time the policy has been in effect
- age of policyholder

c) Dividends are paid annually and expressed as dollars per thousand dollars of coverage.
Example: If a dividend of $5 was declared and the face value of your policy is $100,000, you will receive $500 in dividends.

d) Dividends can be taken in various ways:
- in cash (if you plan to invest the cash elsewhere, it is wise to take it out shortly **after** the policy anniversary, the only date on which dividends are paid);
- used to pay part of your next premium or interest on a policy loan;
- used to buy additional insurance ("paid up" bonus addition);
- be left with the company to accumulate interest;
- buy additional 1-year term insurance (known as the 5th dividend option).
Considerations for this last option:
  - The protection is usually limited to an amount equal to the cash value of the whole life policy. Otherwise, with the same $45 used to buy $100 of whole life, you could buy $9,000 - $18,000 of one-year term.
  - You do not require proof of insurability provided the option has been used each time the dividend was paid to you starting from the date the policy was purchased. If you want to exercise the option at a later date, you must provide proof of insurability.

Considerations of Whole Life Insurance

- Whole life policies should not be considered as investments. The cash value build up of a whole life policy is a long-term conservative vehicle. Those wanting higher rates of return, should consider investments specifically designed for this purpose.
- If you cease paying premiums, any cash value which has accumulated is used by the company to pay your premiums in the interim. This is a good feature if you are going to be able to resume paying premiums.
- A level premium is not necessarily a virtue. You are paying extra in the early years to keep the premium level later on. If you have the discipline to save and you do not foresee that whole life will be of particular advantage to you, then you may wish to purchase term insurance and invest the difference between the two amounts of premiums.
- "Permanent" insurance is not necessarily a virtue, either. Most people may not need life insurance after retirement age, and for those who do, many kinds of term insurance are renewable to older ages. However, the cost may then be prohibitive.

- Keeping your whole life policy in force after you retire will enable you to take a higher monthly pension or annuity without the need to worry about providing for a surviving spouse.
- If you borrow against the cash value of your policy, you may be charged market-rate interest. You will still be paid dividends, however.
- It takes about 3-5 years to accumulate sufficient cash value from which to borrow. Approximately 95% of the cash value would then be available for loan.
- Unless you have the option of gradually increasing the face value of your policy by a reasonable amount, you may find that 20 - 40 years down the road, inflation has eroded the value of your policy to the point where it is inadequate for your needs. This, of course, is no different from any other financial plan. Review your insurance policy and retirement plan periodically so that you keep abreast of inflation.

The purchasing power of $100,000 with inflation rates of:

	10 years	20 years	30 years	40 years	50 years
6%	$53,900	$29,000	$15,600	$8,400	$4,500
8%	$43,400	$18,900	$ 8,200	$3,500	$1,500
10%	$34,900	$12,200	$ 4,200	$1,500	$ 500
12%	$27,900	$ 7,800	$ 2,200	$ 600	$ 200

Would You Benefit From Buying Whole Life Insurance?

Check off the descriptions that apply to you.

☐ **I am in a high tax bracket,** and my policy has a relatively high investment yield.
Under current law, the investment return is tax-deferred and partially tax-sheltered. However, the law may change making this aspect of whole life less appealing.

☐ **I need discipline to save** through the payment of premiums.
If payroll deduction plans are available where you work, check out their investment return. Even though they might be taxable, they could provide a better approach to cash accumulation than life insurance.

☐ **I will always need insurance** (I am older with disabled heirs, for example.)

☐ **I am a senior with special estate tax or other unusual needs.**

☐ **I have good reason to believe that I might become uninsurable** at a future time in my life when I will require insurance.

☐ **I will have a temporary period** during which I may not be able to pay premiums and my cash value is a substantial amount.

☐ **I tend to get deeply into debt.** The cash value in a whole life policy is sheltered from creditors provided you haven't named your estate as beneficiary. If you go so deeply into debt that you cannot afford to pay the premiums, the advantages of a cash value policy may be particularly beneficial as the premiums may be continued through the non-forfeiture options.

2. Endowment Insurance

What Is It?
This is the most expensive type of permanent policy. Since it is mainly sold as a savings policy, the premiums are extremely costly. Due to the fact that it is not tax-exempt, this type of policy may be close to extinction.

How Does It Work?
The policy always "pays off" or "endows". At the end of a specified period such as 10, 15, 20 or 30 years, or at a given age such as age 60, the life insurance company pays the face amount to the policyholder provided there has been no death claim.
The policy is said to have matured when cash values equal the face value of the policy. Once the policy matures, the coverage ends.

Considerations:
- With most endowment policies, you cannot convert to another policy at the end of the endowment period.
- As investments, endowment policies provide very conservative but very safe returns.

3. Universal Life

What Is It?
This is a combination of term insurance and an investment fund. This policy was designed to provide an attractive savings vehicle by separating the insurance protection and the savings into two units. The policy is flexible enough to allow you to miss payments or stop payments altogether and still keep the policy in force.

How Does It Work?
Within certain limits, you can choose the amount of the premiums to be paid. When you pay your annual premium, the company credits it to your cash value account. Each month it deducts the cost of a term insurance policy and administrative expenses from that account. The remainder is placed in investments to earn interest and thereby increase your cash value.

There are **two types of universal coverage:**
1. A **regular universal life policy** pays a stated rate of interest in your cash value that is determined by the company from time to time.
2. If you buy a **variable universal policy,** you choose your investment vehicles and your returns will fluctuate with what the investments earn. As with a variable whole life policy, be sure you understand the potential investment consequences before purchasing this type of policy.

Two Payout Options With Universal Coverage
Option A: Your survivors receive only the face value of the policy.
Option B: Your survivors receive the face amount plus the accumulated cash value. This option costs more because the company pays out more in the end.

Expenses

Companies use frontloads, backloads or both to assess charges against your universal policy:

- With a **frontloaded** policy, a company may charge 5-9% of each premium before crediting it to your cash value. The charge may remain constant or it may be larger in the first year and smaller in subsequent years.
- With a **backloaded** policy, a company credits the entire premium to your account. However, if you were to surrender it in the first year or make a partial withdrawal, you could be charged as high as 100% of the first year premium. Surrender charges gradually diminish and disappear somewhere between the 10th and 15 year.

Policies having both frontloads and backloads may charge less for the loads and retire them earlier.

Frontloaded	⟶	Lower cash value in early years	⟶	Surrender value = cash value
Backloaded	⟶	Higher cash value in early years	⟶	Surrender value = less than cash value in early years

Considerations:

- You can make partial withdrawals from your cash value account.
- Policy conditions are more easily understood. You receive an annual statement detailing all transactions so you automatically see how all elements of your policy work.
- Premiums can be changed from time to time to coincide with cash flow.
  - If you pay what the company calls a **target premium**, your policy may be fully paid in as little as 3 years and will stay in effect for your entire life; you will eventually accumulate a rather substantial amount of cash value.
  - If you pay **somewhat less** than the target premium (⅓ to ½ less), you will still accumulate some cash value and your insurance coverage will remain the same.
  - If you pay **much less** than the target premium, you will build no cash values and you'll basically have a term policy.
  - If you have **paid** the target premiums faithfully, you will be allowed to miss payments if your budget is tight.
- Interest rates are more competitive than for whole life policies. As well, nearly all policies come with a guaranteed minimum rate which is significant if interest rates plunge.
- The same policy may cover more than one person, thereby requiring payment of only one policy fee as opposed to several.
- Some companies guarantee that they will not lapse your policy during the first 2-5 years provided you have paid a minimum premium.
- The flexibility options of the policy regarding premium adjustments and amount of coverage mean that your agent should be contacting you periodically to discuss changes you might need.
- The policy may be tax exempt. However, if the interest rate is sufficiently high to bring the policy to the non-exempt levels, then increased insurance coverage can be purchased in order to avoid taxation.
- Fees and commissions are deterrents to cashing in your policy. If you surrender it after a year or two, hefty backload charges might swallow your entire cash value.

- Initial expenses (frontloads) and annual administrative charges may cause your cash value to grow slower for the first 5-10 years.
- Some companies place restrictions on partial withdrawals. When partial withdrawals are permitted, certain maximum and minimum amounts are set.
- The company reserves the right to change the interest rate as often as every month and so the pace of the cash value buildup may be altered dramatically if rates drop. If interest rates rise, however, you stand to benefit.
- High investment rates can sound very attractive. Make sure any quotes are for **net rate** which has been adjusted to reflect the price of buying and maintaining the policy.
- A variable universal policy exposes you to varying interest rates and stock fluctuations.
- While premium amounts are flexible and you can miss the odd payment, someday the company may require you to pay more money if the cash value is insufficient to pay the premiums and administrative charges. If you cannot come up with the extra cash your policy will lapse. On the other hand, you may be able to quit paying premiums earlier than anticipated.
- Even though you may pay large premiums initially for 5-7 years on the prediction that you'll never have to pay another cent, be aware that premiums vanish only when interest rates remain high enough to cover the cost of your insurance protection. Ask for promises to be clearly stated on your policy.
- A universal life policy requires a certain amount of energy on the part of the policyholder. Its flexibility demands that you pay constant attention to all notices and statements from the company so that you do not let it lapse unintentionally.
- A universal life policy is a sharing of risk between the policyholder and the insurance company as far as interest rates, mortality rates and expenses are concerned. However, for this risk-sharing the policyholder may pay considerably less premiums than for a whole life policy.

Would You Benefit From Buying Universal Life Insurance?

Check off the descriptions that apply to you.

- ☐ **I need a forced savings plan** (payroll deduction plans might provide better returns on investment)
- ☐ **I require life insurance but I have a fluctuating income.**
- ☐ **I expect to change my amount of coverage in the future.**
- ☐ **I can benefit from coverage of more than one person.**
- ☐ **I need permanent insurance such as for a buy-sell arrangement.**

Reading a Policy

The Law
A life insurance policy is a **legal contract** between the life insurance company and you, the policyholder. In Saskatchewan, the terms and conditions of insurance contracts are set out under **The Saskatchewan Insurance Act.**

The Saskatchewan Insurance Act (Section 107) clearly states that every policy **shall include** the following:

- name of the insurer (company)
- name of the insured (policyholder)
- name of the person(s) to whom the insurance money is payable (beneficiary)
- the amount of insurance (the death benefit)
- the method of determining the premium
- the subject matter of the insurance (life, property, hail, etc.)
- the indemnity for which the insurer may become liable
- the event on the happening of which the liability is to accrue
- the date when the insurance takes effect
- the termination date or the method by which it is fixed.

Reading the Policy
Take the time to **read** and **understand** your policy before you sign and remember, if it isn't what you wanted, **you have 10 days in which to cancel for a full refund of premium.** Don't be afraid to ask your agent for assistance.

Let's "walk through" the three main parts of a life insurance policy:

Part 1: Basic Agreement/Contract Summary
The first part of a policy describes with basic facts and figures the nature of the agreement. In other words, you will find:

- name of the company
- face amount
- premium payments
- name of the beneficiary
- type of policy
- date the policy is in effect
- duration of the policy

Part 2: The Policy Provisions
This section sets out in detailed clauses the specific terms of the contract. Information on a number of these terms is provided here:

- **Premiums:** The premium is the amount you will **pay** to keep the policy in force. The amount will depend on what risk category you are placed in, your age and sex. Premiums can also remain constant, increase or decrease, depending on the type of policy. Be sure you understand and know why.
- **Grace period:** This refers to the period of time (usually 30-31 days after the premium date) during which you can pay your overdue premium and keep the policy in force.
- **Reinstatement:** If your policy has **lapsed**, this clause spells out under what terms it can be put back into force.
- **Automatic Premium Loan:** If your policy has a cash value, the company will use it to cover the payment automatically in the event the grace period has gone by.

- **Cash Value:** If you have a permanent type of policy, check for the chart which shows the guaranteed cash values. This cash value can also be used for loans. Ask your agent to explain further details and other uses such as **extended term insurance** (using cash value of whole life to buy additional term insurance) or **reduced paid-up insurance.**
- **Dividends:** The policy will outline if and when payment of dividends (profits the insurance company makes) is made.
- **Incontestability:** Once the policy is in force for 2 years, the company can no longer challenge or contest the information on the application. Payments of claim must be made unless statements in the application are fraudulent.
- **Mis-statement:** If your age is listed incorrectly, the death benefit will be adjusted to the correct age.
- **Suicide:** If the policyholder commits suicide within two years after the policy is issued, the beneficiary will receive only a refund of premiums paid.
- **Alteration of Policy:** This clause protects both the insurance company and you by requiring that any changes to the policy be made in writing.
- **Ownership Rights and Assignment:** This clause gives you, the policyholder, **the right to select** and to **change** your beneficiary and the settlement option, and to receive or use the cash value and the dividends. It is also your right to assign these rights to (an)other person(s).

Part 3: The Application
This section is filled out by you, your agent and if necessary, by your doctor. Based on this information, the company determines your class of risk. Information required may include:

- other life insurance policies held
- marital status
- occupation
- hobbies
- lifestyle
- medical facts (you may require a medical examination)

Cancellation of a New Policy

Most companies offer 10-day rescission rights. In other words, you may have a 10-day-period following the purchase of a new policy wherein you can cancel the policy and obtain a full refund of your start-up premium.

If this option is available to you, provide proof of cancellation within the 10-day period by:

- sending a registered letter to the company advising them of your decision to cancel;
- informing your agent.

Choosing a Beneficiary

Choosing a beneficiary is one of the most important decisions you make when buying life insurance. It is so crucial that you should consider seeking the advice of an estate lawyer who will co-ordinate your will and your insurance policy.

A beneficiary is the person identified in the beneficiary clause of the policy to receive the face amount of the policy when the policyholder dies.

Should You Designate A Beneficiary?
Yes. If no beneficiary is named, the death benefit is paid to the estate. It can mean greater probate fees. As well, there may be greater legal fees if your lawyer is one who bills according to the size of the estate.
When a beneficiary is specifically named in a policy, the death benefit is paid **directly to** the beneficiary (except in the case of a minor) and not to the policyholder's estate. The beneficiary is not taxed on the face value of the policy. However, if the disbursement of the policy is delayed for some reason, any interest that accrues on the face value will have to be taxed.

Points To Consider When Naming Your Beneficiary:

- If the beneficiary is appointed irrevocably or is a member of the "protected class" (such as spouse, child, grandchild or parent of the insured), death benefit payments are free from creditors and others laying claim to the estate.
- If you are considering naming your children as beneficiaries be aware that minors will not have access to the funds until they reach the age of majority. If you wish to provide financial protection for your children, a better solution would be to name a trustee (such as a trusted relative) and provide specific instructions in your will as to how you want the insurance benefits administered to the advantage of your children.
- If you designate your children as beneficiaries and then absolutely assign your policy to your spouse, s/he can cash in the policy and designate himself or herself as beneficiary.
- Consider naming an alternate beneficiary. If the primary beneficiary predeceases you and no alternative has been named, the death benefit reverts to the estate.
- If you choose to make your life insurance payable to a charity, you may deduct your premiums as a charitable donation within certain limitations.

Can The Policyholder Change the Beneficiary?
It depends. If the beneficiary was designated as **irrevocable beneficiary,** changing the beneficiary can only be done with the beneficiary's consent. Neither can the cash value be surrendered or assigned to a third party without such consent. Dividends are not affected by this designation.

How Does a Policyholder Change Beneficiaries?
Simply complete and sign a declaration form provided by your insurance company. You will receive a duplicate copy for your records and the original will be filed with the company. No fees are attached to this service.

When Can A Beneficiary Claim The Death Benefit?
Since an insurance policy is considered as having monetary value, benefits cannot be claimed until after the will has been probated.

How Does One File Such A Claim?

- If an agent has been serving the family, contact him or her to handle details and arrange prompt payment.
- If the agent is not known, the beneficiary should send proof of death and the deceased's date of birth to the company that issued the policy. The address of the company, as well as instructions for filing a claim are usually included with the policy.
  Once the claim is filed and documentation received, the company should pay promptly. If a claim is outstanding after one month, contact the office of the Saskatchewan Superintendent of Insurance for assistance. Phone: 787-5550 in Regina.

Cashing In A Policy

Whether or not you should cash in your policy depends on your personal situation.

You would be wise to retain your policy if:

- you have a serious health problem at retirement age and a short life expectancy;
- you have insufficient assets at retirement age;
- you have a fairly new cash value policy that hasn't yet provided a reasonable return on investment.

However, it may be a wise move to cash in your policy if:

- you have held your cash value policy for a sufficient number of years so that it has built up a reasonable return on investment;
- you are at retirement age and
  - you no longer have a loss of income to insure against
  - your once-dependent children have grown up
  - taxation will occur when you are in a lower tax bracket.

Taxation of Individual Policies

Ask your agent to review the tax status of any policy that you are considering purchasing or surrendering. Older policies (sometimes referred to as "grandfather" policies) purchased before December 2, 1982, will likely be taxed differently from policies purchased after that date when changes were made to the Income Tax Act. If your policy is non-exempt, you usually can choose to report every three years but if you wish to take advantage of the $1,000 interest and dividend "income deduction"*, you may wish to report annually.

For newer policies, the general rule of thumb for taxation is that if cash values or reserves exceed that which would accumulate in a 20-pay endowment (policy "endows" after 20 years) at age 65, then they are non-exempt and must be reported. Most policies today, however, are structured so that they are exempt.

The death benefit is not taxable. However, if non-exempt policies provide accumulated investment income not previously brought into income for tax purposes, that amount in excess of the death benefit may be subject to taxation.

If a policy is surrendered prior to the death of the policyholder, then the portion of the cash surrender value reasonably attributable to the savings element of the policy may be taxed. (Very simply stated, this would be the excess of the cash surrender value over the premiums paid).

*In view of the proposals in the federal government White Paper on Tax Reform, the $1,000 deduction may not be available for interest or dividends from any source, including a life insurance policy.

Switching Policies

Should You Switch Policies?

Deciding whether or not to switch from one policy to another can be very difficult. Most life insurance companies and many consumer advocates discourage this practice for good reasons:

- You will have to pay the sales commission and administrative costs for a second time.
- You will likely have to pay higher premiums as premiums are geared to age.
- You usually lose for two years the protection provided by the "incontestability" and "suicide" clauses. In other words, if the policyholder has made crucial mis-statements on the application form for the policy or commits suicide within two years weeks of purchase, the insurance company usually does not pay the full death benefit.
- If you have a permanent policy and switch in the early years before substantial savings have accrued, you will lose heavily.
- Your health may have deteriorated so that the cost of insurance is much higher or you may even no longer be medically insurable.

Because of the disadvantages of switching policies, **The Saskatchewan Insurance Act** (Section 445) forbids a practice known as "twisting". Twisting occurs when agents encourage needless policy switches for any reason.

The wise consumer, however, cannot rule out switching altogether. To do so can mean that s/he could be left in a passive position that could cost him/her hundreds and even thousands of dollars over the years.

The decision to switch depends on a number of factors:

- whether or not you are still insurable.
- whether or not your existing policy can be modified.
- whether or not the new policy will meet your insurance needs by providing the same amount of coverage.
- the type of policy you currently hold and the type you're considering switching to.

Ways and Means of Switching

First Possibility: Dropping a whole life policy to buy another whole life policy

This is often a mistake, simply because you will incur large sales commissions and administrative costs for a second time and you will have to wait for cash values to build up all over again.

However, when the interest-adjusted net cost and net payment indices (tools for cost comparison described on page 35) indicate that your policy is just about the most expensive one on the market, then it might be time to obtain another policy.

Consumer Reports advises you to make a mathematical adjustment to the interest-adjusted net cost index for the old policy. In calculating the index per $1,000 of coverage, divide the cost index by the face amount minus the cash value. If you feel that the difference between the two policies is relatively small and you would lose more by switching, you probably should keep the policy you have.

Second Possibility: Switching whole life to buy term
If you have already paid the high premiums for a number of years and the time is approaching when the accumulated cash value will begin to justify the payments, then probably you shouldn't switch.

If the cost for your whole life policy is very high, however, compare the net costs of the two premiums for the next 20 years. You may find that it pays to switch. On the other hand, if your old whole life policy pays dividends that are competitive with a term policy, generally speaking, you should probably keep the whole life policy in force and supplement it with term, if necessary.

To avoid switching, your agent may be able to arrange some options for you. You may be able to:

- use dividends or cash value to pay the premiums on the whole life policy.
- borrow against the cash surrender value and use the money to invest in other types of investments.

Third Possibility: Switching from convertible term to a permanent policy
If you plan to switch from convertible term to a permanent policy, then you have the option of converting your existing policy. However, you may wish to shop around and look at options from other companies before making a final decision.

Fourth Possibility: Dropping one term policy to buy another
Since no cash value is involved, this is a simpler task. First, compare the policy costs by adding up all the premiums for the next 20 years. If this crude comparison indicates some advantage in switching, then obtain the 20-year interest-adjusted net cost index for the new policy and compare it with the same index for the present policy with the current year as the starting point.

Fifth Possibility: What about universal life?
Since virtually all elements in a universal life policy can change over time, any comparisons are estimates verging on guesses. The same goes for comparisons of universal life with whole life since there's an added complication. You don't know what interest rates will be in the future.

If you want to take a stab at comparing universal life with whole life, however, ask the agent selling universal life for a projection of your cash surrender value for specified time periods such as 5, 10 and 20 years, using the same premium, same face amount, and the company's current interest rate. Have the agent who sold you the whole life policy tell you what your cash surrender values will be at the same points in time and what dividends you are likely to receive. Whichever policy provides the most cash if you surrender it is probably the best for you. However, you may feel more secure with the guaranteed whole life policy.

What If You Need More Coverage?
A common problem has to do with whether or not a smaller policy, say for $50,000 should be switched for a needed larger one, such as $100,000 of coverage. Should you switch from a $50,000 to the $100,000 policy? Or should you keep the $50,000 policy and simply buy another policy for $50,000?

It is obviously easier to keep track of one policy as opposed to two policies. As well, you often get a price break when you buy larger amounts of insurance. However, if you find that the cost index for the new $100,000 policy is worse than the updated cost index for the old $50,000 policy, keep the old policy and buy another $50,000 policy – or vice versa if the reverse is true.

What Is the Best Time to Switch Policies?

The best time to replace an existing policy is 2-3 days after the anniversary date of the policy. This will allow you to receive any yearly:

- increases in cash surrender values
- dividends
- interest credited to dividends on deposit.

Having noted the above, the cardinal rule is to **keep your existing policy in force until a new one has been approved and delivered.** Otherwise, you could find yourself uninsured and, worst of all, uninsurable.

So You've Decided to Switch . . .

If you have decided that switching is in your best interests, consult your agent to ensure that the transition goes as smoothly as possible. (S)he will ensure that you are still medically insurable, that there is no lapse in coverage and that your cash value is received without adverse tax consequences.

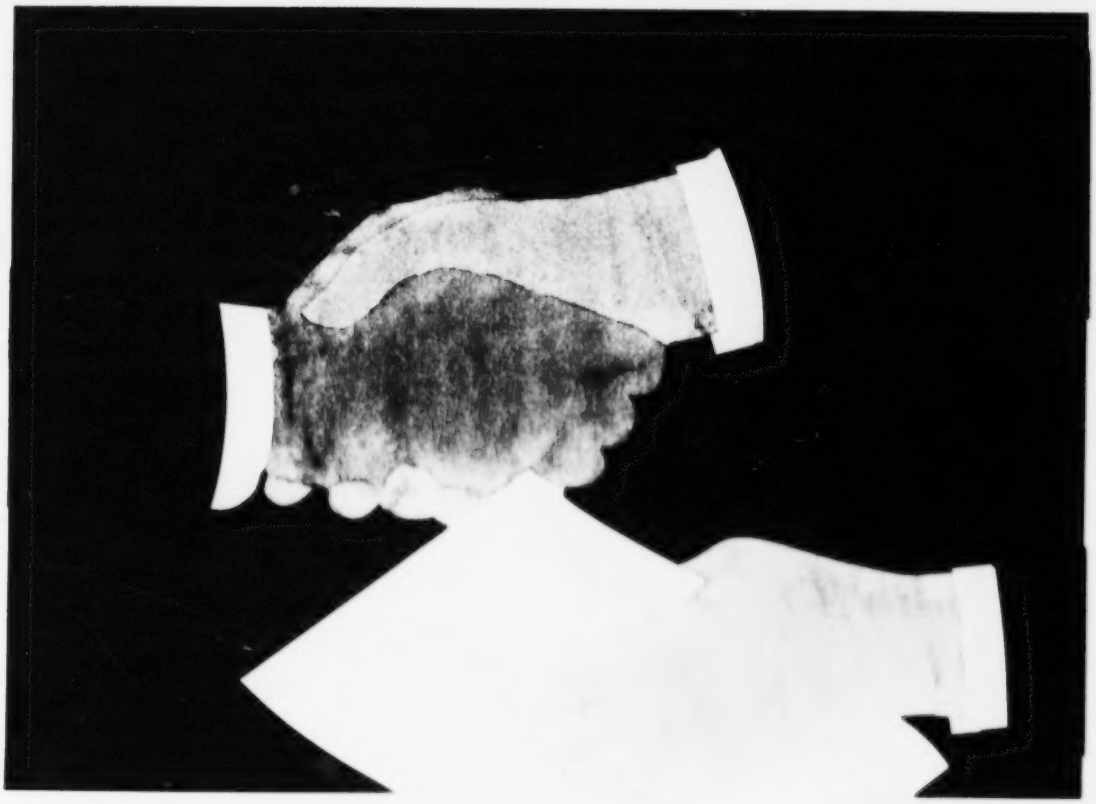
As well, (s)he will sit down with you and go through a form approved by the Provincial Superintendent of Insurance, the Life Underwriters Association of Canada (LUAC), and the Canadian Life and Health Insurance Association. This form is a **basic disclosure statement regarding replacement of contracts of life insurance.** It includes:

- A seven-step general warning about the consequences of replacing contracts.
- Comparative information about the old and new policies so that you can evaluate:
  - basic coverage
  - death benefits
  - premiums for basic coverage and riders
  - methods of payment
  - cash value
  - dividends
  - other aspects such as taxation, policy loans, interest rates on loans, expiry of incontestability and suicide clauses, etc.

The need to complete this form should indicate to you the seriousness of switching policies. It is rarely in the policyholder's interest to pursue this course.

A final important option to note is that most companies offer a 10-day free examination period should you decide to switch policies. This means that you may be able to cancel the new policy within 10 days should you decide against it, and retain the old policy. Check to see if this option is available with your company before switching.

IV. Shopping For Life Insurance



Choosing an Agent

Life insurance agents are sometimes called:

- representatives
- underwriters
- financial or estate planners

Things To Consider Before You Contact An Agent

1. **Your agent should serve all of these purposes:**
   - act as a liaison between you and the company.
   - design an affordable life insurance package that fits your needs.
   - arrange ownership and beneficiary designations to your best advantage.
   - help you make future changes to your policy as required.
   - assist settling insurance claims.

2. **There are three different kinds of agents:**
   - **Exclusive Agent** – works only for one company
   - **Independent Agent** – represents more than one company
   - **Broker** – sells insurance on behalf of a number of companies (usually 8 to 10).

3. **Agents work on a commission basis**
   Agents are paid a commission for the services they are required to provide for a policyholder during the term of his or her policy. The major portion of this commission is received in the first year from the premium. In later years, this fee is nominal.

   For permanent policies, agents' commissions can be 10-70% of the premium in the first year, depending on the product chosen.

   Most agents are members of the Life Underwriters Association of Canada. They are required by its code of ethics to place their customers' interests before their own and give the best possible advice.

4. **Agents have varying credentials:**
   Credentials indicate:
   - **Formal training**
     If the agent has passed the **LUAC** training course, then (s)he has completed a 2-year program offered by the Life Underwriters Association of Canada (LUAC).

     CLU (Chartered Life Underwriter) is a top designation which shows the agent has completed an exacting 5-year course administered by the LUAC through the universities of Toronto and Montreal. The primary objective of Chartered Life Underwriters of Canada is the training and education of life underwriters in order that they will be able to identify a wide range of financial problems with confidence and authority.

     ChFC is a new designation which will soon be available. It indicates the bearer has completed the CLU degree and has also attained the level of a chartered financial consultant.

- **Quality of service**
  NQA (National Quality Award) shows that the agent has been in the insurance field for at least 2 years and has maintained a high quality of service to policyholders.
- **Sales performance**
  MDRT (the Million Dollar Round Table) signifies that the bearer has been in the industry for at least 2 years, is a member of LUAC, is among the top 5% of agents worldwide in sales, and has maintained a high quality of service to policyholders.

Checklist For Choosing Your Agent

☐ Does the agent advise you solely on the basis of your insurance needs?
To get the best advice:
- determine how much insurance you need in advance of meeting with the agent.
- have the agent show you in writing 2 or 3 alternative solutions, each providing the same amount of coverage.
- ask the agent to specify in writing the advantages and disadvantages of each policy.

☐ Is the agent able and willing to broker on your behalf?
You stand to benefit if the agent is able to compare policies and rates from a number of companies and select the best policy at the lowest cost.

☐ Does the agent have credentials indicating training, sales performance and/or quality of service?
While credentials are desirable, agents who haven't been in the field long enough to earn them may still give you excellent service.

☐ Is the agent available to you on a regular basis to assist with interpretation, required changes and the like?

☐ Do those who have used the services of this agent recommend him or her because he or she answers all questions, is available for assistance, and is easy to understand? You will want to be able to relate to your agent so that you feel free to communicate your needs.

Choosing a Company

Since costs for similar types of policies can vary from one company to another, it is very important that you take your time and choose a company carefully. You could save yourself thousands of dollars!

When you choose an agent, you generally also choose an insurance company. You will want to know the company's reputation as well.

Checklist For Choosing A Life Insurance Company

- ☐ **Is the company financially strong?**
  You may be reassured to know that there has never been a major failure of a Canadian life insurance company. However, it is your prerogative to make inquiries.
- ☐ **Does the company offer policies that best reflect your insurance needs?**
  It is important that you know what you want your insurance to accomplish before you seek out a company.
- ☐ **Does the company offer the type of policy you need at a competitive (affordable) rate?**
  While it may be time-consuming, be sure to comparison shop so that you are not paying excessive rates. This is where a life insurance broker may be of value.
- ☐ **Do others speak well of the service and the types of coverage provided by the company you're considering?**

Mail Order Life Insurance

Considerations:

- There's no doubt about it! Mail order policies are convenient and very easy to buy. You simply read the literature, check off the amount of insurance you want, complete the form and mail it in. Often you don't even need a medical certificate.
- Mail order companies must charge rates that are high enough to cover additional losses due to relaxed medical examination requirements.
- Since you will not have to pay an agent's commission, the company may claim the price is lower. However, mail order insurance companies must spend money on advertising and mailing, thereby increasing the cost. Do not be mislead by "pennies a day" offers.
- Surveys have shown that for some companies, premiums are competitive for younger age groups but more costly for 40's and above age groups. Be sure to comparison shop.
- Depending on where the mail order company is located, access to service may be very difficult and involve lengthy delays.
- You will not have the service of an agent.

Purchasing By Mail Checklist

- ☐ Does the policy provide for your insurance needs?
- ☐ What is the name of the insurance underwriter (the company sponsoring the plan)?
- ☐ Is the underwriter based in Canada?
- ☐ Is the company financially sound?
- ☐ Is the cost of the policy affordable?
- ☐ Is quality service available and readily accessible?
- ☐ If the plan is offered by a credit card issuer or financial institution, can premiums be added to the charge account or be automatically deducted from the savings/chequing account?
  If the policy is available by credit card, don't forget to add in potential credit charges as part of the cost.

Comparing Costs

Tools For Cost Comparison

Comparing the costs of the various types of life insurance policies is very important but it's not necessarily a straightforward task. Take the time to conduct careful comparisons and avoid purchasing a policy quickly.

For Term and Whole Life Policies

(a) **Crude Method**
A crude method for cost comparison is to simply total the cost of premiums over a number of years and subtract any dividends, if applicable.

If comparing whole life insurance with term, you can compare costs further by calculating opportunity costs. In other words, determine the difference you'd pay between a term policy and a whole life policy and then calculate the savings you could accumulate if you purchased term insurance and invested the difference. When doing the latter calculation, use a rate of interest that reflects returns after tax. For example, if you feel that you could find an investment vehicle that could earn you 10% interest but you are in a 30% income tax bracket, then your rate of return after tax would be 7%.

(b) **The Interest-Adjusted Indices**
Two indices are available from some insurance companies. They have limitations, however, as they can be manipulated and they are only useful for comparing term with term, whole life with whole life, participating with participating and non-participating with non-participating policies. Although the actual calculations for the indices are complex, the indices themselves are not difficult to understand.

The Interest-adjusted net cost index (cost or surrender index) measures the cost of a policy if you surrender it after a specified period such as 5, 10 or 20 years. This index takes "timing value" into account as well as a stated rate of interest (8% is generally accepted throughout the industry) and so more accurately projects a policy's true costs.

The Interest-adjusted net payment index (payment index) measures the ongoing cost of holding your policy and the cost of your policy if you die while holding it.

Why Both Indices Are Important

- You don't know exactly when you will die so you need both to evaluate your policy.
- A policy may have a good payment index but a poor cost index. In other words, it's a bargain if you die while holding it, but no bargain if you cash it in.

Since the cost and payment index figures are the same for term policies, the above points will mainly apply to whole life policies.

Using The Indices

- To read the indices, you will need to know that they are expressed as a cost per one thousand dollars of insurance.
  For example, a policy with a 10-year net cost index of 2.50, is estimated to cost $2.50/$1000 of coverage, or $250/year for a $100,000 policy.

The lower the index number, the better the buy. Disregard differences less than 50¢ if the company with the lower index raised its dividend scale recently or introduced a new series of policies.

- It is important to use both 10 and 20 year cost indices to compare costs. Policies with cash value tables that slope upward sharply in later years are great in the long-term but can be disadvantageous if they are cashed in during the early years.
- If necessary, give priority to the 20-year index. If you have purchased a whole life policy, you are likely in it for the long-term.
- Index numbers cannot give you the full story. If there's little difference between the indices for policies from various companies, you might decide to opt for a slightly higher-priced policy simply because:
  - the company is stable;
  - the agent is well-qualified, has your interests at heart and is prepared to give you many years of good service; or,
  - there are special policy features particularly suited to your needs.
- When using the indices, compare only **similar** term with term policies and similar whole life with whole life policies. They must be compared for the same age and sex, must provide the same benefits for the same length of time and so on.

Table 7: How The Interest-Adjusted Method Works

The figures below are for a $$$,000 whole life policy issued to a 25-year-old woman (or a 25-year-old man) by a hypothetical life insurance company. Following the figures, we have calculated the interest-adjusted net cost index and the interest-adjusted net payment index (for both twenty and ten years) for the policy.

* For convenience, the numbers are rounded to the nearest dollar.

Interest-adjusted net cost. The accumulated premiums ($12,000) minus the accumulated dividends ($2,558) and minus the cash value ($6,890) = $6,551.

Interest-adjusted net cost factor. For a twenty-year period, the interest-adjusted net cost ($6,551) divided by the constant for 20 years (20.000) = $0.33. To get the index per $1,000 of coverage, divide the index for the total amount of coverage ($10.99) by the number of thousand dollars of coverage ($$) = $0.42.

For a ten-year period, the interest-adjusted net cost ($6,551) divided by the constant for 10 years (12.466) = $662.26. To get the index per $1,000 of coverage, divide the index for the total amount of coverage ($662.26) by the number of thousand dollars of coverage ($$) = $$$.$$.

Interest-adjusted net payments. The accumulated premiums ($12,000) minus the accumulated dividends ($2,558) = $10,131.

Interest-adjusted net payment index. For a twenty-year period, the interest-adjusted net payment ($10,121) divided by the constant for 20 years (20.000) = $506.61. To get the index per $1,000 of coverage, divide the index for the total amount of coverage ($506.61) by the number of thousand dollars of coverage ($$) = $13.07.

For a ten-year period, the interest-adjusted net payment ($10,121) divided by the constant for 10 years (12.466) = $810.58. To get the index per $1,000 of coverage, divide the index for the total amount of coverage ($810.58) by the number of thousand dollars of coverage ($$) = $$$.$$.

From: The Consumer's Union Report on Life Insurance: A Guide to Planning and Buying the Protection You Need by the Editors of Consumer Reports, Mount Vernon, New York, 1977.

For Universal Life

Since the cost index and payment index are not useful for comparing universal life policies, **Consumer Reports** has devised a method which they believe is sound:

- Choose a reasonable interest rate for today's monetary climate.
- Ask several agents to show you cash-and-surrender-value accumulation for a premium you select for each year up to say, 15 years. By asking each company for a projection using the same interest rate and the same premium, you can learn which policies have the lowest expense and mortality charges.
- Next, consider the interest rate. If two companies have similar expenses and charges and one guarantees a much higher rate (1½ - 2% more), buy the policy with the higher guaranteed rate. Note that in most cases, interest rates are only projections, not guarantees.
- If interest rates are similar, check out which company has better loan provisions or other favorable policy options.

Other Points To Remember

- Some policies are good buys at certain face amounts and not at others. What may be a good buy for a 45-year old may not be quite as good for a 25-year old.
- Some companies give you a price break if you buy larger amounts of insurance. For example, if you pay less for a $100,000 policy than you would for a $78,000 policy, you might consider opting for the higher amount.
- Some companies have a variety of policies. One can be of exceptional value while another is a poor buy. As well, the same policy can be offered by different companies at varying amounts.
- Pay close attention to dividend illustrations provided by a company. They are projections based on the company's **current** investment earnings and are not guaranteed.
- Ask your agent to provide a figure called the "equivalent level dividend". Add that figure to the cost index and you will know the theoretical cost of the policy if no dividends are paid.
- If you have been classified as a substandard risk or been rejected by one company, do not despair. Underwriting standards vary considerably from one company to another so shop around and find a company that will consider you a standard risk. This means, however, that you may have to opt for a higher-priced policy.
- Some companies allow their agents to act as brokers so that if your needs can't be met by the policies offered by that company, the agent can select a policy from another company for you which ultimately may also be more economical.

Before You Buy Final Checklist

Before you decide on a purchase, ask yourself the following questions or use this checklist when meeting with your agent.

Affordability

- ☐ Can I afford the premiums right now at the time of purchase?
- ☐ In the case of a permanent policy, will I be able to afford the premiums in later years? (Avoid this type of policy if you cannot afford to keep it in force over a period of many years).

Personal Needs

- ☐ Does the policy meet my current life insurance needs?
- ☐ Do I anticipate lifestyle changes and, if so, will long-term insurance meet my changing needs?

Flexibility

- ☐ Can I convert from one type of policy to another?
- ☐ Can I renew my policy without proof of insurability?
- ☐ Can the amount of coverage be increased?
- ☐ Are premium payments flexible so that if I miss some payments I will still have coverage?
- ☐ Can I borrow from my cash value and/or dividends, and if so, when? and at what rate of interest?
- ☐ Are reasonable options available so that any forseeable future life insurance needs can be met?

Cost Effectiveness

- ☐ Will this policy give me the protection that I need at a price I can afford?
- ☐ Did I ask the agent for the interest-adjusted net cost and net payment indices for term and whole life policies?
- ☐ Are there frontend or backend loads?
- ☐ Are there penalties for early withdrawal or cancellation?
- ☐ Are there other charges attached to the policy, hidden or otherwise?

Cost Disclosure

- ☐ Are all costs disclosed annually on a statement issued to each policyholder?
- ☐ What are the total expense charges?
- ☐ If there's an investment component, what is the rate of return?
- ☐ Are interest rates being quoted equally in order that compounded interest is only being compared with compounded interest and so on?
- ☐ How frequently are interest rates adjusted?

Simplicity

- ☐ Is the policy easily understood so that I can readily review it on a regular basis?
- ☐ Will I require assistance, professional or otherwise, to interpret the provisions of the policy? If so, will I have to pay for this assistance?

Service

- ☐ Is an agent going to be available to me on a periodic basis should I require further information and assistance?

Licensing

- ☐ Is the agent licensed to sell life insurance in Saskatchewan?
- ☐ Is the life insurance company also licensed for the province of Saskatchewan?

Investment Value

- ☐ Provided I am a good saver, will my money provide better returns if I purchase bonds, treasury bills, mutual funds, guaranteed investment certificates, preferred shares or some other investment vehicle?

Special Policy Provisions

- ☐ Under what conditions can a company refuse to pay the death benefit? (Suicide within two years of the anniversary date of the policy is usually not covered, for example).
- ☐ Will the company attach a rider to the policy which excludes one or more causes of death?
- ☐ Under what conditions might a company lapse my policy?
- ☐ Are there guarantees they won't lapse my policy provided I pay a minimum premium?
- ☐ If I am a non-smoker and have a reasonably healthful lifestyle, will I qualify for a lower rate of insurance?

Taxation

- ☐ What is the tax status of any policy that I may consider purchasing or surrendering?

Economic Cycles

- ☐ Will the next couple of decades be a period of economic boom? (If you anticipate this could be so and you wish to have a permanent policy, then a participating policy could be the best buy.)
- ☐ Does the economy appear to be uncertain? (Again, if you're considering a permanent policy, a non-participating policy which guarantees a fixed rate of return is preferable in uncertain times. If your job could be unstable or you may have difficulty paying premiums, avoid permanent policies and opt for term insurance instead). Since there likely will be other points to consider, consult with your agent. He or she can give you the professional assistance you require.

V. Where To Take A Life Insurance Complaint

The majority of life insurance complaints – like most consumer complaints – result from poor communications and misunderstandings. Most problems can be prevented by dealing with established, reputable insurance firms and agents who are well-known in the community.

Complaints are important to life insurance companies because they alert the business to possible problems with the product or their service.

How To Complain

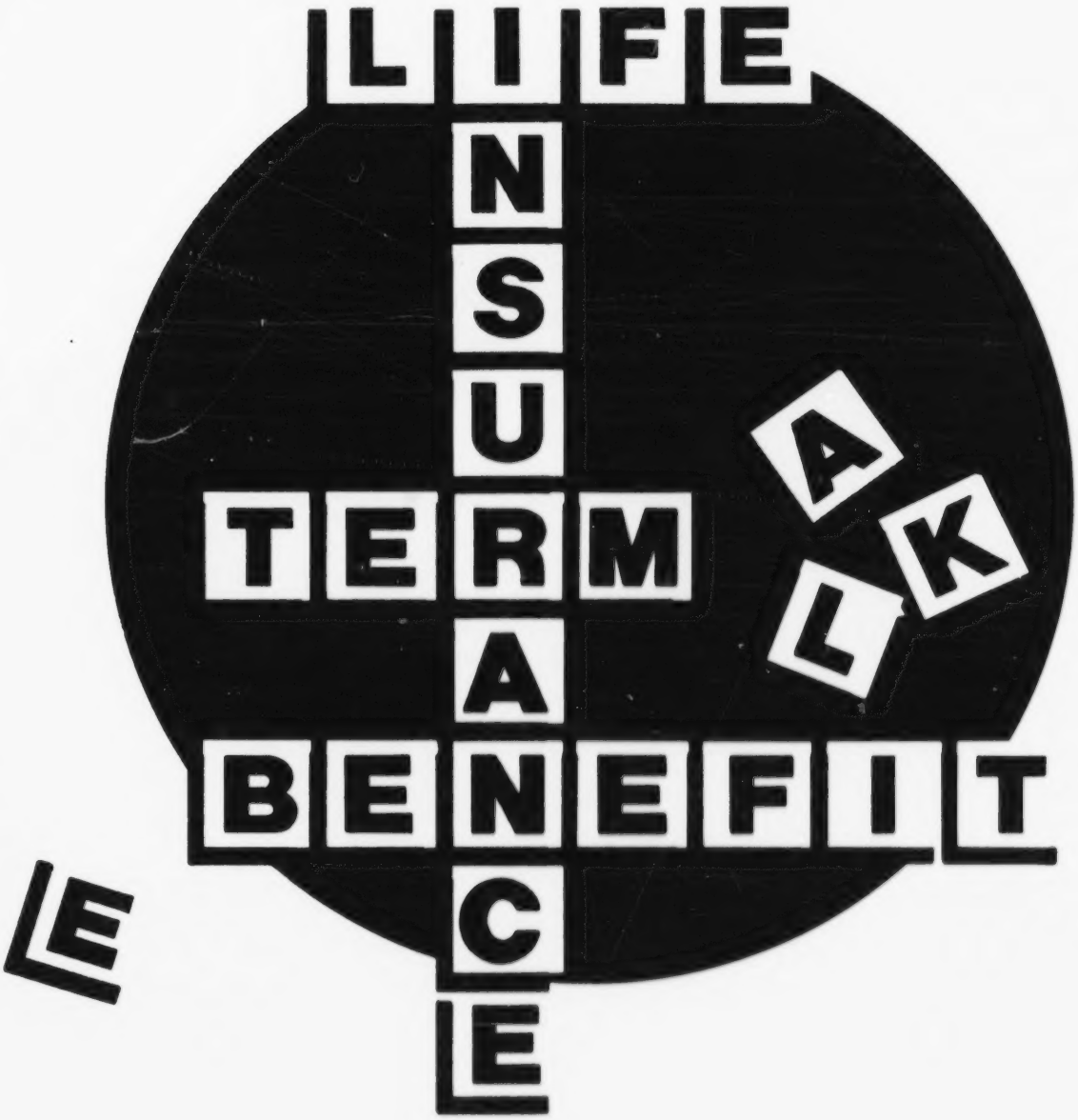
There are a few basic steps to the gentle art of the successful complaint. Follow the steps in this order:

1. Always discuss the problem with your **agent** first.
2. If you are not satisfied with your agent's response, contact the **company** directly with a written complaint. Give your name, address, phone number and insurance policy number. (Keep a copy of your complaint for future reference).
3. Next, you may take your complaint to the **Saskatchewan Life Insurance Council,** an independent, 9-member council which oversees the bylaws governing the life insurance industry in the province. Council members are appointed by life insurance companies, the Life Underwriters Association of Canada and the provincial Superintendent of Insurance. Contact: Saskatchewan Life Insurance Council, 1424 Broad Street, Regina, S4R 1Y9. Telephone: 347-0862.
4. As a last resort, contact the **Saskatchewan Superintendent of Insurance,** who is responsible for administering **The Saskatchewan Insurance Act.** The Superintendent of Insurance is the final authority.

If you have a general question or want to find out more about a life insurance problem, contact:

Superintendent of Insurance
Saskatchewan Consumer and Commercial Affairs
1871 Smith Street
Regina S4P 3V7
Telephone: 787-5550

VI. Understanding The Language Of Life Insurance



The language of life insurance is sometimes confusing because different words and terms are often used to describe the same thing. Here is a list of some common terms used in the life insurance business and what they mean.

Accidental death benefits (also called "double indemnity" benefit). An additional benefit paid in case of death by accident.

Accidental and sickness insurance. Various kinds of insurance offering benefits for loss of income or for expenses resulting from accidental injury, sickness or accidental death.

Actuary. A professional trained in the mathematics and technical aspects of life insurance, pensions and related fields who calculates premiums, reserves and other values.

Agent (also called an "underwriter", "life underwriter" or "sales representative"). A sales and service person representing a life insurance company.

Annuity (also "life annuity"). An investment contract that pays out regular amounts for a specified period or for life, usually at a specified age and during retirement years.

Beneficiary. The person who is to receive the insurance money when the policyholder dies.

Broker. A person who sells (life insurance) on behalf of a number of companies (usually 8 to 10).

Cash value (also "cash surrender value"). The amount payable in cash to the owner of a policy who voluntarily cancels the policy before it is payable by death or maturity. Not all policies have a cash value.

Chartered Life Underwriter (CLU). An agent who has completed the exacting 5-year course administered by LUAC through the universities of Toronto and Montreal.

Convertibility. A provision which allows one type of policy to be exchanged for another type without the policyholder having to provide proof of insurability.

Death benefit. The benefit paid to the beneficiary when the policyholder dies.

Disability benefit. A benefit added to some life insurance policies which provides for waiver of premium – and sometimes payment of monthly income – if the person insured becomes totally and permanently disabled.

Dividend (also "policy dividend"). A refund paid to the policyholder of part of the premium (on "participating" insurance only).

Endowment insurance. A type of insurance policy which is payable at the end of a specified period, called the "maturity date", if the policyholder is living; or, payable to the beneficiary should the policyholder die before the maturity date.

Face amount (also called the "sum insured"). The amount stated on the face of the policy that will be paid on the death of the person insured or at the maturity of the policy.

Grace period. The period – usually 30 or 31 days – during which an overdue premium may be paid without penalty.

Group life insurance. Life insurance issued on a group of people under a master contract, usually without medical examination. It is usually issued to an employer for the benefit of employees.

Interest-adjusted net cost index (cost or surrender index). This index measures the cost of a policy if you surrender it after a specific period such as 5, 10 or 20 years. This index takes "timing value" into account as well as a stated rate of interest and so more accurately projects a policy's true costs.

Interest-adjusted net payment index (payment index). This index measures the ongoing cost of holding your policy and it also measures the cost of your policy if you die while holding it.

Level premium insurance. Life insurance which has the same premium from year to year. The premium is more than the actual cost of protection during the earlier years of the policy and less than the actual cost in later years.

Life insured (usually also the "policyholder" or "owner" or the "insured"). The person on whose death or disability the insurance becomes payable.

Limited payment insurance. This is a type of life insurance providing coverage throughout life but premiums are payable only for a limited number of years, instead of until the death of the person whose life is insured.

Linton yield. A rate-of-return figure most commonly calculated by actuaries.

LUAC. Life Underwriters Association of Canada.

Mortality rates. Statistics used in relating life insurance to the number of deaths over a period of many years.

Non-participating insurance. Policyholders do not share in any dividends or surplus earnings distributed by the life insurance company.

Ordinary life insurance (also called "whole life", "straight life" and "permanent life"). It refers to life insurance payable on the death of the person whose life is insured, whenever that occurs. Premiums are payable on a regular basis until death and coverage is provided throughout life. This type of life insurance provides both protection and cash value.

Paid-up insurance. Life insurance on which all the required premiums have been paid.

Participating life insurance. Policyholders are entitled to receive dividends.

Permanent life insurance. See "ordinary life insurance".

Policy. The printed document issued to the policyholder by the life insurance company which states the terms of the life insurance contract between them.

Policyholder. See "life insured".

Policy loan. A loan made by a life insurance company to a policyholder using the cash value of a policy as security for the loan.

Premium. The payment(s) which a policyholder is required to make in order to keep a life insurance policy in force.

Proof of insurability. Proving medically that you are qualified to purchase life insurance.

Renewable insurance. This provision allows the policyholder to renew a policy at the end of each term without having to provide proof of insurability.

Replacement. Switching from one life insurance policy to another.

Rider. An extra-cost option to a basic policy which adds on or excludes benefits, amount or type of coverage to the basic policy benefit.

Settlement options. The various ways that the death benefit or face amount of the policy can be paid to the beneficiary.

Straight life insurance. See "ordinary life insurance".

Superintendent of Insurance. The head of a federal or provincial government department which supervises and regulates the insurance industry.

Surrrender. To cancel or terminate a policy before its maturity date.

Term insurance. Temporary life insurance which provides protection for a specific length of time and is payable on the death of the policyholder within that time. If the policy expires before death occurs, coverage stops and the policy has no cash value.

"Twisting". An illegal practice whereby commission-hungry agents encourage needless policy switches.

Whole life insurance. See "ordinary insurance". To add to the confusion, "whole life" insurance is sometimes used to also include "limited payment" life insurance.